

McCrovy

STORES CORPORATION

1956
ANNUAL
REPORT





February 14, 1957

To The Stockholders:

The Company's operations during 1956 resulted in a new sales record. Despite interruptions due to store construction, sales volume of \$113,115,937, an increase of 3.1% over 1955, was achieved by broadening the base of the variety of merchandise offered to our customers.

Earnings per share of Common Stock for 1956 were \$1.40, compared with \$1.35 earned in 1955. Dividends of \$1.00 per share were paid in 1956 and 1955 on 2,281,017 shares of Common Stock held by approximately 10,300 shareholders.

The display of a greater variety of new and attractive merchandise was made possible by enlarged modern stores with expanded selling areas due to the development of self-service counters. Throughout the year merchandise inventories were kept in balance and at realistic levels. At the year-end, inventories were in excellent condition and low in relation to sales. Short term bank loans in the amount of \$3,000,000 were obtained, at the prime interest rate, to finance the inventory at peak selling periods. These loans were repaid prior to the year-end.

McCrorry Management, after an additional year of experimentation, is projecting its future store development largely along the lines of self-service. Many of these future stores will be located in shopping centers

offering adequate parking facilities. The opportunity to present merchandise in a manner that allows self-participation and selection on the part of the customers is growing steadily with the introduction of new fixtures. The additional volume of sales obtained has tended to level off the rising costs of doing business which have become so destructive to profits in the conventional store.

At this time tentative plans are being prepared in the drafting rooms which will require capital expenditures of \$2,500,000 during 1957. Four new store locations, at shopping centers, have been secured and plans are being submitted to convert twelve additional stores to self-service. To provide in part the additional funds needed for this expansion, the Company borrowed \$1,000,000 in June 1956, from 40 community banks where the Company does business; this represented the balance of the \$3,000,000 long term 3½% loan arranged by the Rockland-Atlas National Bank of Boston during 1955.

The cost of new store construction during 1956 amounted to approximately \$3,355,000. The following is a summary of the store locations where construction was completed during 1956.

New Stores

Orlando, Fla.

Whitehaven, Tenn.

Enlargement and Conversion to Self-service

Carnegie, Pa.

Hamilton, O.

Charlottesville, Va.

Louisville, Ky.

Chester, Pa.

Morristown, Tenn.

Danbury, Conn.

Syracuse, N. Y.

DeLand, Fla.

Winchester, Va.

Youngstown, O.

Three stores were closed during 1956. The sales volume at these stores was unsatisfactory and, in the opinion of Management, the locations offered little opportunity for development.

Working Capital at December 31, 1956 amounted to \$15,478,061. The statement below reflects the major items making up working capital, indicating how the funds were provided and their disposition.

WORKING CAPITAL		
CURRENT ASSETS	1956	1955
Cash	\$ 6,215,315	\$ 5,369,279
Merchandise Inventories	17,900,431	18,175,534
Accounts Receivable	68,781	38,118
	<u>\$24,184,527</u>	<u>\$23,582,931</u>
Less Current Liabilities (Net)	8,706,466	7,863,206
WORKING CAPITAL	<u>\$15,478,061</u>	<u>\$15,719,725</u>

STATEMENT OF SOURCE AND DISPOSITION OF FUNDS		
ADDITIONS TO WORKING CAPITAL:	1956	1955
Net income	\$ 3,411,783	\$ 3,300,255
Depreciation and amortization	1,721,249	1,628,314
Long Term Debt	500,000	2,000,000
	<u>\$ 5,633,032</u>	<u>\$ 6,928,569</u>
DEDUCTIONS FROM WORKING CAPITAL:		
Cash Dividends on Preferred and Common Stock	\$ 2,490,643	\$ 2,490,643
Capital Assets (expenditures for new and remodeled stores, etc. — Net)	3,354,893	2,270,625
Increase in deferred charges, etc.	29,160	(109,478)
	<u>\$ 5,874,696</u>	<u>\$ 4,651,790</u>
NET DECREASE IN WORKING CAPITAL	<u>\$ 241,664</u>	<u>\$ (2,276,779)</u>

As always, the Company's past and future accomplishments depend on all employees at all levels; and to them we express our thanks and appreciation for their achievements during the past year.

—BY ORDER OF THE BOARD OF DIRECTORS

R. F. Coppedge

R. F. COPPEDGE, Chairman

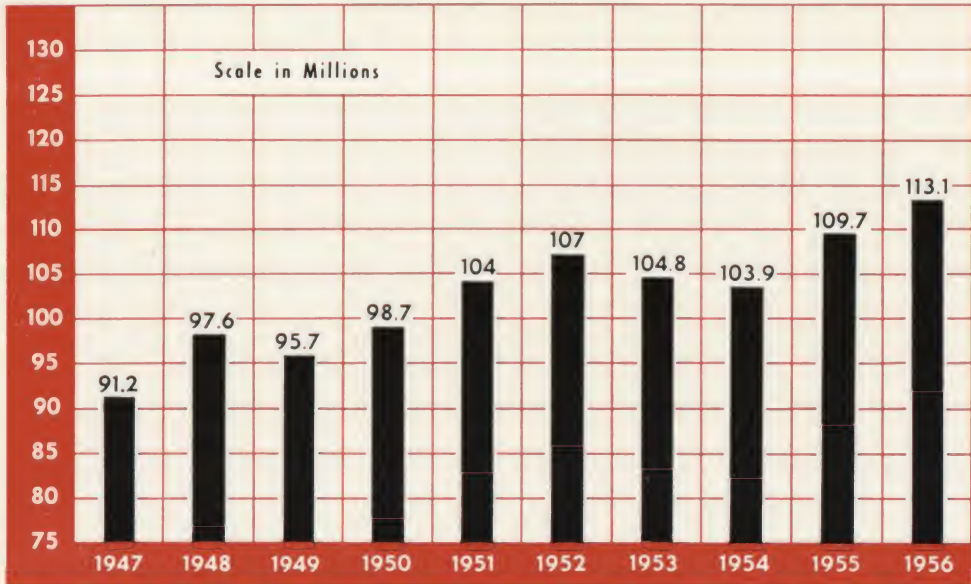
F. W. Paul

F. W. PAUL, President

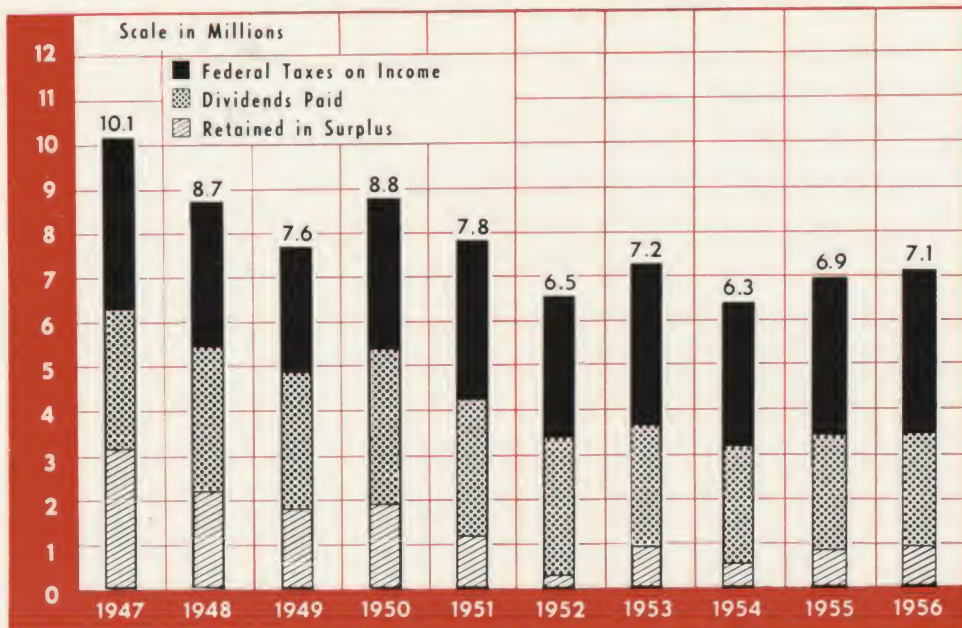
The Story in Brief

	1956	1955
Sales	\$113,115,937	\$109,704,876
Number of Stores	213	214
Average Sales per Store	531,061	512,640
Employees Compensation and Pension Costs (Including Payroll Taxes)	21,454,915	20,534,660
Net Earnings	3,411,783	3,300,255
Earned per Share	1.40	1.35
Dividends per Share	1.00	1.00
Taxes per Share (Federal, State and Local)	1.93	1.81
Net Additions to Fixtures and Improvements	3,354,893	2,270,625
Working Capital	15,478,061	15,719,725
Current Ratio	2.78	3.00
Net Worth per Share	15.67	15.00
Number of Stockholders	10,913	10,318

Annual Sales



Disposition of Income



TO THE BOARD OF DIRECTORS
McCRORY STORES CORPORATION
NEW YORK, N. Y.

We have examined the balance sheet of McCrory Stores Corporation as at December 31, 1956 and the related statement of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and earned surplus, together with the notes to financial statements, present fairly the financial position of McCrory Stores Corporation at December 31, 1956, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year.

S. D. LEIDESDORF & CO.

Certified Public Accountants

New York, N. Y.
February 14, 1957

McCrory Stores

BALANCE SHEET as at D

ASSETS

CURRENT ASSETS:

	1956	1955
Cash on hand, in banks and in transit	\$ 6,215,315	\$ 5,369,279
Merchandise inventories—Note A	17,900,431	18,175,534
Miscellaneous accounts receivable, less reserve	68,781	38,118
Total Current Assets	<u>\$24,184,527</u>	<u>\$23,582,931</u>

FIXED ASSETS:

Real estate, at adjusted value December 31, 1936 and subsequent additions at cost	\$ 6,531,481	\$ 6,159,709
Furniture, fixtures and equipment, at cost — Note B	17,063,683	15,416,464
Improvements to leased property, at adjusted value January 1, 1936 and subsequent additions at cost	18,632,047	17,533,494
	<u>42,227,211</u>	<u>39,109,667</u>
Less: Reserves	14,372,423	13,509,926
Total Fixed Assets	<u>\$27,854,788</u>	<u>\$25,599,741</u>

DEFERRED CHARGES:

Prepaid rents, insurance, taxes, store supplies, etc.	\$ 905,098	\$ 875,938
	<u>\$52,944,413</u>	<u>\$50,058,610</u>

NOTES TO FINANCIAL STATEMENTS

Financial statements as at and for the year ended December 31, 1955 are included for comparative purposes only.

NOTE A—

Merchandise at stores:

	1956	1955
Inventories at the lower of cost or market based upon the retail method of inventory valuation	\$14,301,499	\$14,179,186
Inventories at cost—restaurants	99,677	99,786
Merchandise at warehouse—at cost	961,463	1,170,368
Merchandise in transit—at cost	2,537,792	2,726,194
	<u>\$17,900,431</u>	<u>\$18,175,534</u>

NOTE B—

During the year, the Company, in order to simplify its record keeping, changed its rate of accumulating depreciation on furniture, fixtures and equipment from a 5, 10 and 15 year life straight-line basis to a composite rate straight-line basis in conformity with its Federal income tax return and, accordingly, increased the net fixed assets by \$621,403. This amount was credited to Earned Surplus. If this change had not been made, net income for the year ended December 31, 1956 would have been decreased by approximately \$135,000.

NOTE C—

The restrictive covenants of a Term Loan and Credit Agreement dated July 29, 1955 pro-

COMPARATIVE BALANCE SHEET

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res Corporation

ember 31, 1956 and 1955

LIABILITIES

CURRENT LIABILITIES:	1956	1955
Accounts payable—including merchandise in transit	\$ 3,979,312	\$ 3,600,208
Accrued expenses, taxes, rents, salaries, etc.	3,987,569	3,785,181
3½% Term Notes—current installment	500,000	—
Reserve for Federal income taxes	3,239,585	3,477,817
Less: U. S. Treasury notes	(3,000,000)	(3,000,000)
Total Current Liabilities	<u>\$ 8,706,466</u>	<u>\$ 7,863,206</u>
3½% TERM NOTES due in annual installments from 1957 to 1961—less current portion included above—Note C	<u>\$ 2,500,000</u>	<u>\$ 2,000,000</u>
CAPITAL STOCK AND SURPLUS—Note D:		
Preferred Stock—par value \$100.00 per share:		
Authorized 80,000 shares		
3½% Series—Cumulative Convertible		
Outstanding 59,893 shares	\$ 5,989,300	\$ 5,989,300
Common Stock—par value \$.50 per share:		
Authorized 2,800,000 shares		
Issued and outstanding 2,281,017 shares	1,140,508	1,140,508
Capital Surplus (no change during the year)	7,723,474	7,723,474
Earned Surplus	26,884,665	25,342,122
	<u>\$41,737,947</u>	<u>\$40,195,404</u>
	<u>\$52,944,413</u>	<u>\$50,058,610</u>

IAL STATEMENTS

vide, among other matters, that the Company maintain minimum working capital, exclusive of the notes, equal to three times the unpaid principal amount of the notes outstanding.

NOTE D—

The 3½% Cumulative Convertible Preferred Stock is redeemable at the option of the Corporation, in whole or in part, at \$104 per share, plus accrued dividends to date of redemption. In the event of voluntary liquidation, the holders are entitled to receive an amount equal to the then redemption price and in the event of involuntary liquidation are entitled to \$100 per share and accrued dividends. There are 299,465 shares of Common Stock reserved for conversion of the Preferred Stock. Pursuant to certain restrictions in connection with the authorization of the Preferred Stock, Capital and Earned Surplus in the approximate amount of \$16,300,000 is not available for dividends on the Common Stock. Reference is made to Note C for minimum working capital requirements.

GENERAL—

At December 31, 1956, the minimum annual rentals upon property leased to the Corporation under 262 leases expiring after December 31, 1959 amount to approximately \$3,800,000, plus real estate taxes, insurance, etc.

The accompanying financial statements are subject to final determination of Federal, state and local taxes.

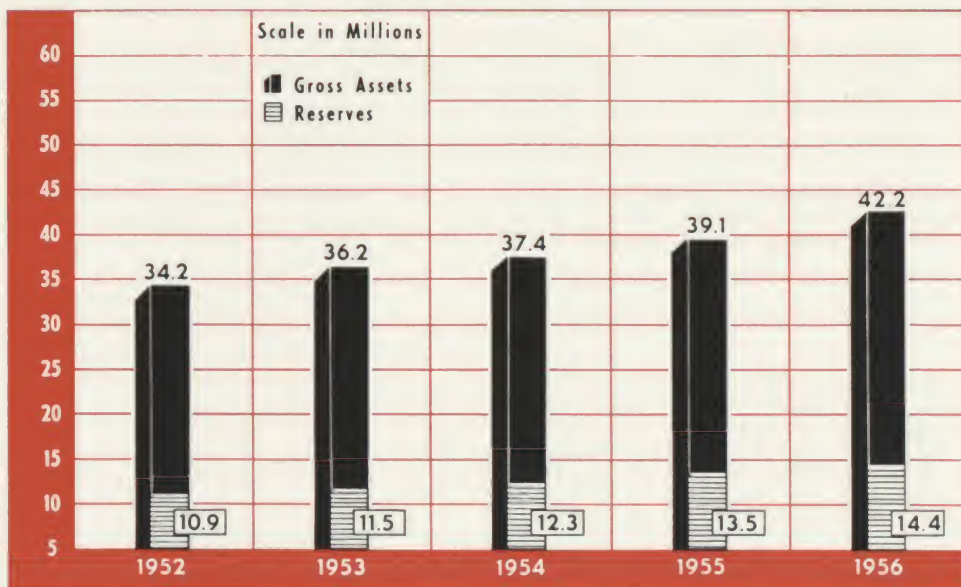
Statement of Income and Earned Surplus

For the Years Ended December 31, 1956 and 1955

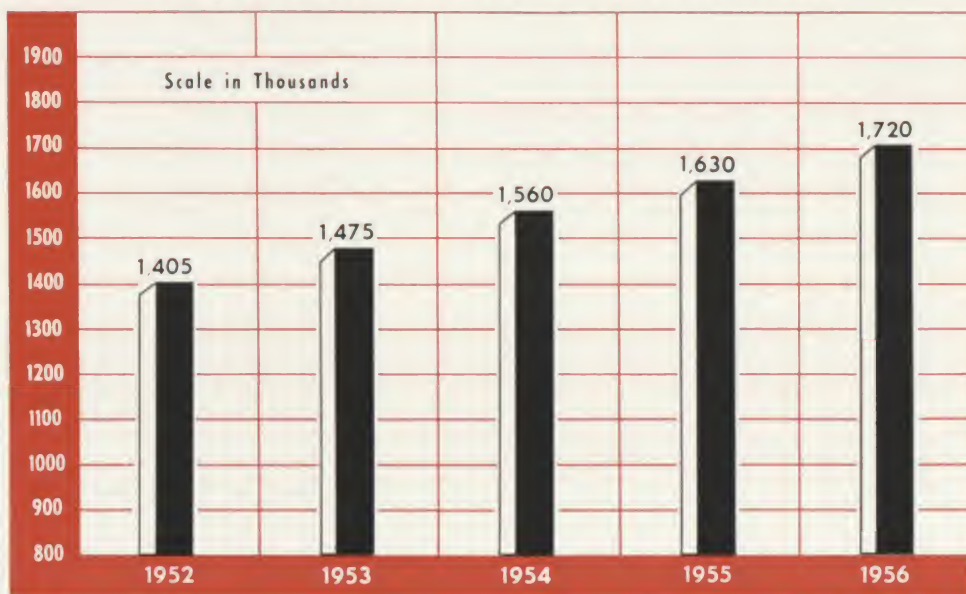
	1956	1955
SALES (merchandise, restaurant and concession)	\$113,115,937	\$109,704,876
COST OF GOODS SOLD AND OPERATING EXPENSES (including occupancy and general and administrative expenses)	104,115,018	100,919,525
	<u>9,000,919</u>	<u>8,785,351</u>
OTHER DEDUCTIONS:		
Interest expense	125,635	68,084
Miscellaneous deductions, less other income	22,252	(8,417)
Income from sale of property	—	(136,228)
	<u>147,887</u>	<u>(76,561)</u>
	8,853,032	8,861,912
Depreciation and amortization—Note B	1,721,249	1,628,314
	<u>7,131,783</u>	<u>7,233,598</u>
Special lease termination costs and related expenses	—	358,343
Net income before Federal income taxes	7,131,783	6,875,255
Provision for Federal income taxes	3,720,000	3,575,000
NET INCOME	3,411,783	3,300,255
EARNED SURPLUS as at December 31, 1955 and 1954	25,342,122	24,532,510
Restatement of net fixed assets to conform to basis used for Federal income tax purposes—Note B	621,403	—
	<u>29,375,308</u>	<u>27,832,765</u>
Dividends paid on:		
Common Stock—\$1.00 per share	2,281,017	2,281,017
Preferred Stock	209,626	209,626
	<u>2,490,643</u>	<u>2,490,643</u>
EARNED SURPLUS as at December 31, 1956 and 1955		
—Note D	<u>\$ 26,884,665</u>	<u>\$ 25,342,122</u>

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction herewith.

Fixed Assets



Depreciation and Amortization



Ten Year Summary

(In thousands of dollars)

	1956	1955	1954
SALES	\$113,116	\$109,705	\$103,856
Cost of Sales, including occupancy expenses	76,004	73,916	70,580
Selling, general and administrative expenses	28,111	27,004	25,475
Depreciation and amortization	1,721	1,628	1,560
Other Income, less other deductions	(148)	(282)	(35)
NET INCOME Before Federal Taxes	7,132	6,875	6,206
Federal Taxes on Income	3,720	3,575	3,140
NET INCOME	\$ 3,412	\$ 3,300	\$ 3,066
Cash Dividends on Preferred Stock	210	210	210
Cash Dividends on Common Stock	2,281	2,281	2,395
*Net Income per share of Common Stock	1.40	1.35	1.25
*Cash Dividends per share of Common Stock	1.00	1.00	1.05
Number of Stores	213	214	210

Financial Position —

	1956	1955	1954
WORKING CAPITAL			
Current Assets			
Cash and U.S. Government Securities	\$ 6,215	\$ 5,369	\$ 5,396
Merchandise Inventories	17,900	18,176	15,233
Miscellaneous Accounts Receivable	69	38	156
Total Current Assets	24,184	23,583	20,785
Current Liabilities	8,706	7,863	7,342
WORKING CAPITAL	15,478	15,720	13,443
OTHER ASSETS			
Account Receivable — Noncurrent	—	—	—
Deferred Charges, etc.	905	876	870
Fixed Assets, Less Reserves for Depreciation and Amortization	27,855	25,600	25,073
	44,238	42,196	39,386
OTHER LIABILITIES			
Long Term Debt	2,500	2,000	—
NET ASSETS	\$ 41,738	\$ 40,196	\$ 39,386
Represented by			
Preferred Stock	\$ 5,990	\$ 5,990	\$ 5,990
Common Stock and Surplus	35,748	34,206	33,396
	\$ 41,738	\$ 40,196	\$ 39,386
*NET WORTH PER SHARE OF COMMON STOCK	\$ 15.67	\$ 15.00	\$ 14.64

*Number of shares of Common Stock has been adjusted to reflect 2 for 1 split during April 1951.

TEN YEAR SUMMARY

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Statement of Income

1953	1952	1951	1950	1949	1948	1947
\$104,787	\$106,987	\$104,222	\$98,665	\$95,767	\$97,588	\$91,225
71,192	73,286	71,011	66,140	65,137	66,088	61,336
24,987	25,771	24,378	22,930	22,249	22,139	19,569
1,477	1,405	1,252	1,130	951	746	674
71	(22)	248	340	156	74	407
7,202	6,503	7,829	8,805	7,586	8,689	10,053
3,575	3,175	3,740	3,540	2,755	3,200	3,750
\$ 3,627	\$ 3,328	\$ 4,089	\$ 5,265	\$ 4,831	\$ 5,489	\$ 6,303
210	210	210	210	210	210	210
2,509	2,851	2,851	3,135	2,850	3,193	3,022
1.50	1.37	1.70	2.21½	2.02½	2.31½	2.67
1.10	1.25	1.25	1.37½	1.25	1.40	1.32½
211	211	206	205	201	202	199

December 31, 1947–1956

1953	1952	1951	1950	1949	1948	1947
\$ 6,114	\$ 7,501	\$ 8,778	\$ 8,642	\$10,876	\$12,195	\$15,003
15,266	13,805	13,372	15,678	11,407	11,379	11,908
100	36	744	96	48	114	190
21,480	21,342	22,894	24,416	22,331	23,688	27,101
8,545	7,517	8,628	8,464	6,754	6,782	9,098
12,935	13,825	14,266	15,952	15,577	16,906	18,003
300	—	—	—	—	—	—
923	924	1,097	968	909	1,142	1,133
24,767	23,267	22,387	19,800	18,316	14,983	11,809
38,925	38,016	37,750	36,720	34,802	33,031	30,945
—	—	—	—	—	—	—
\$ 38,925	\$ 38,016	\$ 37,750	\$36,720	\$34,802	\$33,031	\$30,945
\$ 5,990	\$ 5,990	\$ 5,990	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000
32,935	32,026	31,760	30,720	28,802	27,031	24,945
\$ 38,925	\$ 38,016	\$ 37,750	\$36,720	\$34,802	\$33,031	\$30,945
\$ 14.44	\$ 14.04	\$ 13.92	\$ 13.47	\$ 12.63	\$ 11.85½	\$ 10.94

213 McCrory Stores . . .

Arkansas (3)

Eldorado
Fort Smith
Jonesboro

Connecticut (1)

Danbury

Delaware (1)

Dover

Dist. of Col. (1)

Washington

Florida (41)

Arcadia
Bartow
Bradenton
Clearwater
Daytona Beach
128 S. Beach St.
814 Main St.
Deland
Fort Lauderdale
Fort Myers
Fort Pierce
Gainesville
Hialeah
Homestead
Jacksonville
Key West
Kissimmee
Lake City
Lakeland

Fla. (cont.)

Leesburg
Live Oak
Melbourne
Miami
Miami Beach
New Smyrna
Ocala
Orlando
S. Orange Ave.
E. Colonial Drive
Palatka
Panama City
Plant City
Punta Gorda
Quincy
Sanford
Sarasota
St. Augustine
St. Petersburg
425 Central Ave.
3270 Central Ave.
Tallahassee
Wauchula
West Palm Beach
Winter Haven

Georgia (8)

Atlanta
Bainbridge
Columbus
Cordele
Savannah
Tifton
Valdosta
Waycross

Indiana (2)

Anderson
Indianapolis

Kentucky (2)

Louisville
Lexington

Louisiana (4)

Baton Rouge
Lafayette
New Orleans
1626 Dryades St.
1005 Canal St.

Maryland (9)

Baltimore
227 W. Lexington St.
6311 York Rd.
Cambridge
Crisfield
Cumberland
Easton
Frederick
Hagerstown
Salisbury

Massachusetts (2)

New Bedford
1115 Acushnet Ave.
1009 S. Water St.

Mississippi (4)

Gulfport
Jackson
McComb
Natchez

Missouri (1)

St. Louis

New Jersey (11)

Atlantic City
Burlington
Camden
Clifton
Jersey City
Newark
Orange
Passaic
Perth Amboy
Rahway
Union

New York (9)

Bay Shore, L. I.
Brooklyn
Flushing, L. I.
Johnson City
Long Island City
New York City
Niagara Falls
Reno Park
Syracuse

North Carolina (5)

Dunn
Fayetteville
Fort Bragg
Roanoke Rapids
Tarboro

... in *Twenty-two States* ***Ohio (8)**

Canton
Dayton
East Liverpool
Hamilton
Kent
Springfield
Steubenville
Youngstown

Pa. (cont.)

Franklin
Greensburg
Hanover
Homestead
Huntingdon
Indiana
Johnstown
Kane
Lancaster
Lebanon
Lewistown
Monongahela
Mt. Pleasant
Patton

Pennsylvania (55)

Allentown
Altoona
Barnesboro
Bethlehem
Bradford
Bristol
Brookville
Canonsburg
Carlisle
Carnegie
Chambersburg
Charleroi
Chester
Clearfield
Connellsville
Cresson
Donora
DuBois
Edwardsville
Ebensburg
Emporium

Philadelphia
1205 Market St.
919 Market St.
Philipsburg
Pittsburgh
105 E. Ohio Ave.
314 Fifth Ave.
Portage
Pottstown
Punxsutawney
Reading
Reynoldsville
Ridgway
Scottdale
Somerset
Tyrone
Vandergrift
Waynesboro
Waynesburg
Windber
York
10 W. Market St.
2449 E. Market St.

South Carolina (8)

Aiken
Chester
Columbia
Gaffney
Georgetown
Greenwood
Newberry
Rock Hill

Texas (cont.)

Taylor
Terrell
Waco
Wichita Falls

Virginia (8)

Arlington
Cape Charles
Charlottesville
Front Royal
Harrisonburg
Pulaski
Staunton
Winchester

Tennessee (6)

Bristol
Kingsport
Morristown
Oak Ridge
Memphis
Whitehaven

West Virginia (11)

Charleston
Clarksburg
Fairmont
Grafton
Huntington
Mannington
Martinsburg
Morgantown
New Martinsville
Parkersburg
Wheeling

Texas (13)

Big Springs
Denton
Fort Worth
Galveston
Hillsboro
McAllen
Nacogdoches
Palestine
San Antonio

*And the District of Columbia.
Stockroom at Huntingdon, Pa.

